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FINANCIAL MANAGEMENT PRACTICES AND ORGANIZATIONAL PERFORMANCE: INVESTIGATING THE MEDIATING EFFECT OF FINANCIAL FLEXIBILITY IN THE PAKISTANI SERVICE INDUSTRY

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ABSTRACT

The purpose of this study is to examine the mediating influence of financial flexibility in the link between financial management practices and business performance. The research focuses on businesses operating in Rawalpindi and Islamabad, Pakistan. The sample included 100 individuals from 22 industry groups. Using regression analysis, the study hypotheses were tested using a quantitative method. The purpose of the analysis was to assess the validity and dimensionality of the suggested research model. According to the findings, sound financial management techniques have a big influence on how well a company performs. In general, businesses that use sensible financial strategies are more likely to thrive in terms of stability and expansion. Financial flexibility, significantly, was discovered to improve the connection between financial management and performance. The need for flexible financial plans that can adjust to shifting economic circumstances is demonstrated by this. Organizations may take quick action, take advantage of possibilities, and lessen hazards thanks to their financial adaptability. Financial flexibility is identified as a key mediating variable in improving organizational outcomes in the research. When interpreting the results, though, there are a number of restrictions that must be taken into account. To begin, the cross-sectional approach of the study reduces its generalizability over time and restricts causal conclusions. Additionally, the comparatively limited sample size may not adequately reflect the wide range of organizational behaviors throughout the nation. The necessity for future research employing longitudinal data and larger sample sizes is implied by these limitations. The study nevertheless yields valuable lessons regarding financial planning and organizational efficiency, notwithstanding these limitations. This study fills a significant void in the Pakistani context, where there is not much empirical research on financial flexibility. It enhances comprehension of how flexible financial strategies may improve outcomes. The results have real-world implications for financial strategists, politicians, and managers in developing nations. This study offers a thorough examination of how financial flexibility contributes to an organization's overall success.

Keywords: *Financial Assessment, Financial Flexibility, Organizational Performance, Baltistan Gilgit-Baltistan Pakistan.*

INTRODUCTION

The service sector's inability to successfully convey unique value propositions and utilize potential synergies (Mlambo et al., 2017) makes it harder to attract students, establish partnerships, and sustain long-term financial stability. The service sector is severely limited in resources, especially in nations like South Africa that are still developing (Mohamed, 2020). Through partnerships, institutions can gain access to resources, knowledge, and infrastructure that they might not be able to acquire on their own (Brooks et al., 2012). By pooling resources through strategic partnership, businesses can deliver better and more comprehensive services to their clients. Due to the quick advancement of technology, businesses encounter both opportunities and difficulties (Gopalan, 2016). A company's capacity to compete depends on its capacity to manage its financial resources effectively (Khokhlova G et al., 2019). According to other scholars, the financial state is synonymous with "the status of capital during its circulation and the capability of the entity to self-develop at a given time" (Savitskaya G V 2016). Even though there are numerous ways to define the financial situation, one of the key components of the study is evaluating how effectively financial resources are being utilized to see if their quantity needs to be changed. An organization with a strong financial position has an advantage in attracting investments, securing loans, and choosing clients and suppliers (Kretova et al., 2017).

The global services sector must have efficient financial management in order to operate effectively. It has become more and more evident in recent years that efficient financial management is essential in the service industry. This is because the service industry has a number of severe problems, including constrained resources, increasing expenses, and the need to offer services of a high standard to a diverse clientele (Mosadeghrad., 2015). In order to boost financial performance and capabilities while lowering risk, organizations are frequently advised to develop, implement, and quickly modify their financial management strategies (Erambo et al., 2016). Better business results come from a greater dedication to and implementation of financial management practices (Coleman and Cohn, 2017). Poor financial management leads to poor financial decisions (Dwangu and Mahlangu, 2021; Kiyabo and Isaga, 2019; William, 2018).

Numerous studies have demonstrated that the interpersonal and interfirm connections fostered by information technology and online information capabilities improve a company's operational efficiencies (Johnson et al., 2007; Vaidyanathan & Devaraj, 2008). Relation-specific resources and knowledge-sharing practices are unique, socially, and operationally complex (Johnson et al., 2007), and they directly contribute to a competitive advantage. Wade and Hulland (2004) assert that a company may develop competitive advantages by leveraging its information resources via spanning and outside-in capabilities. Outside-in capabilities are concerned with creating external-facing business intelligence and relationships, with a focus on comprehending competitive landscapes, satisfying client needs, and predicting market trends. Closing the conventional knowledge gaps between enterprises, between departments, and throughout the supply chain requires aligning data both internally and externally.

A company's capacity to efficiently access and restructure its finance in the face of unforeseen difficulties or investment prospects is referred to as financial flexibility, which is a critical factor in its strategic agility and resilience. When external funding is scarce, it enables companies to prevent expensive financial hardship, keep up their ability to invest during downturns, and seize growth opportunities. By reducing the risks of underinvestment, particularly during economic crises, financial flexibility helps boost company worth, as emphasized by Gamba and Triantis (2008). Likewise, Denis (2011) highlights the fact that financially flexible businesses are able to respond more effectively to financial restrictions since they have more liquid assets and less debt. The importance of financial flexibility in risk management and long-term value creation is further highlighted by empirical studies by Almeida, Campello, and Weisbach (2004), which demonstrate that firms with higher financial flexibility are better able to maintain operations and invest during times of economic uncertainty. Financial management practices enhance organizational performance by influencing efficiency and effectiveness (Erambo, 2017).

Nevertheless, the processes by which financial management practices affect performance are still shockingly understudied, even though the evidence suggests a positive relationship between these practices and organizational results (Akpan et al., 2022). The majority of studies on the financial management practices of SMEs concentrate on wealthy nations like the United Kingdom (McMahon, 2001), the United States (McMahon and Holmes, 1991), Italy (Sensini, 2020), Canada (Bahri et al., 2017), Germany (Henschel, 2006), Spain (Chalmers et al., 2020), and the Netherlands (Maes et al., 2005). However, there are very few publications on the financial management practices of SMEs in West Africa (Abor, 2007; Adegbie and Alawode, 2020). The financial management practices are crucial to the successful operation of SMEs (Mwangi and Biruda, 2015; Nketiah, 2018; Zaridis et al., 2021). The literature emphasizes the significant impact of financial management practices on an organization's performance and competitiveness (Adegboye & Iweriebor, 2018; Brijlal et al., 2017; Nthenge & Ringera, 2017). Financial management practices are considered a vital resource and a source of competitive advantage (Mwashi & Miroga, 2018). between businesses, departments, and throughout the supply chain.

The current study adds to the literature on the subject in several significant ways. It provides suggestions for resolving issues related to organizational performance in emerging countries like Pakistan. A research inquiry was then conducted to analyze how financial management practices affect organizational performance. The relationship between Financial Management Practices, Financial Flexibility, and Organizational Performance in Pakistan has not yet been studied. We then used system management theory (Khan et al., 2022; Samuel and Jacobsen 1997; Yoon and Kuchinke, 2005) and resource-based view (RBV) theory (Khan et al., 2020; Onjewu et al., 2022; Zhang et al., 2021).

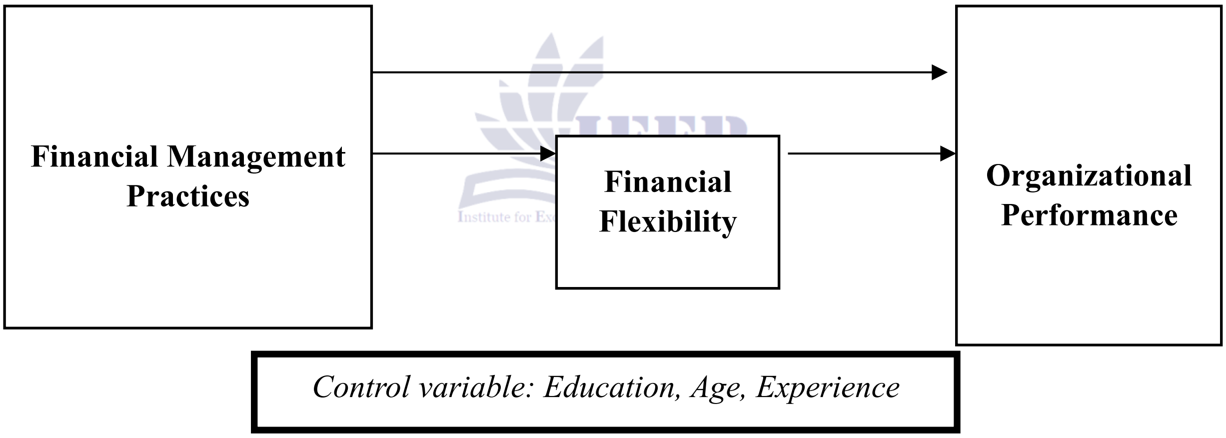

Figure 1: Research Model

Literature review:

Financial Management Practices:

The management of financial resources depends on effective financial management, according to Coleman and Cole (2017). Financial management is essential to the future of excellent businesses, according to Vohra and Dhillon (2014) and Waweru and Hgugi (2014). Financial management procedures are described by Ahmed and Mwangi as a set of well-established processes for managing financial reporting, budgeting, and other activities related to business finances. Dwangu and Mahlangu (2021) state that effective financial management practices are necessary for monitoring financial resources and making wise financial decisions. Working capital management, capital budget management, and asset management are described by many authors as parts of financial management methods (Alles et al., 2021). According to Louw et al. (2022), good working capital management is a key component of an organization's financial stability and a significant factor in its profitability and success. Capital budgeting is a key component of financial management and is essential for making decisions about capital investments (Ross et al., 2016). To aid in decision-making in asset management, high-quality asset data from different sources is integrated (Abdirad and Dossick, 2020). Financial management strategies support an organization's financial stability and profitability (Deakins et al., 2018). Effective financial management practices ensure that there is enough cash flow production (Deakins et al., 2018; Salazar et al., 2013).

Financial Flexibility

A company's financial flexibility is its capacity to manage its finances and change its funding in order to react to unforeseen events or negative circumstances. It is growingly acknowledged as a crucial component of strategic financial management, especially during periods of economic instability. Gamba and Triantis (2008) argue that financial flexibility enables companies to make value-enhancing investments despite having limited internal resources or poor market circumstances. Companies with significant financial flexibility are better able to withstand economic downturns and prevent issues related to underinvestment. Additionally, Denis's (2011) studies highlight that firms with greater financial flexibility are more likely to have lower debt levels and larger cash reserves, which gives them the ability to react quickly to threats and prospects. When external funding becomes scarce or expensive during crises like the 2008 global financial crisis or the COVID-19 pandemic, these traits are particularly important.

In addition, a relationship between financial flexibility and enhanced strategic decision-making and corporate performance has been demonstrated. Companies are better able to invest in capital expenditures, mergers and acquisitions, and innovation that improve long-term value by retaining the capacity to access funds at a low cost (Byoun, 2008). Recent empirical evidence also indicates that the market favors financially flexible businesses with increased valuations because of their perceived lower risk and greater flexibility (Almeida, Campello, & Weisbach, 2004). Therefore, proactively managing financial flexibility through the best possible capital structure, liquidity management, and contingency planning has become a major priority for CFOs and corporate strategists looking to maintain growth and stability in unpredictable markets.

Organizational Performance:

The idea of organizational performance is multifaceted and complex (Ateke & Akani, 2018; Singh et al., 2016; Wood & Ogbonnaya, 2018). The extent to which an organization achieves its objectives is known as its organizational performance (Zhang et al., 2008; Nitzl et al., 2018). This perspective is supported by many authors, who argue that a firm's performance is determined by its capacity to create strategies that are compatible with the complexities and dynamic aspects of a changing environment (Rehman et al., 2019; Shea et al., 2012). In a similar vein, many academics argue that organizational performance is a critical indicator of the accomplishment of defined organizational goals and objectives (Laaksonen & Peltoniemi, 2018). Richard et al. (2009) contend that an organization's performance may be assessed either objectively using financial performance indicators or subjectively using non-financial metrics to measure its success in attaining its goals and objectives. The literature, nevertheless, promotes the integration of financial and non-financial indicators (Dryer and Reeves, 1995; Harris and Mongiello, 2001). The financial, capital market, organizational, and human resource elements associated with organizational performance were all analyzed in this study.

H1: Financial Management Practices has a significant positive effect on Organizational Performance.

H2: Financial Management Practices has a significant positive effect on Financial Flexibility.

H3: Financial Flexibility has a significant positive effect on Organizational Performance.

H4: Financial Flexibility mediates the relationship between Financial Management Practices and Organizational Performance.

RESEARCH METHODOLOGY:

Information was collected from a range of full-time and part-time workers in Pakistan's Rawalpindi and Islamabad Service industry. The data gathering subjects were selected using convenient sampling methods. Data was gathered online via email, Facebook, WhatsApp, and hard copies. The survey was accompanied by a secret letter that outlined the study's goals to the participants. Additionally, it told participants that their survey responses are kept private and confidential. Their response is solely utilized for educational purposes. Of the 150 questionnaires that were mailed, 118 were returned, and 100 were deemed useful. The percentage of usable data returned was 66.66%. Details about the distribution and characteristics of the sample may be found in Table 1. The findings indicated that 33% of the participants were men and 67% were women overall. Additionally, 68% of the respondents were married, while 32% were unmarried. Ninety percent of the respondents were part-time workers, and the other ten percent were full-time employees. Additionally, 30% of the participants were between the ages of 18 and 25. In contrast, 40% of survey participants were between the ages of 26 and 30, and 30% were between the ages of 41 and 60. Twenty percent of respondents were in clerical jobs, ten percent in technical services, ten percent in maintenance, and sixty percent in management. Twenty percent of respondents had 21 to 30 years of experience, twelve percent had 11 to 20 years, eight percent had 6 to 10 years, and sixty percent had 0 to 5 years. None of the respondents had more than 30 years of experience.

Measures

Asset management (Kelly and Hardy, 2018), capital budget management (Balarabe, 2020), and working capital management (Mazlan and Choong, 2018) were used to assess financial management practices. The reliability rating for the fourteen items was 0.782. The study on Financial Flexibility, which served as the mediating variable (Biddle, 2009), yielded five findings. Financial Flexibility had an alpha reliability of 0.855. Financial results (Rowe and Morrow, 1999), organizational results (Chenhall and Langfield-Smith, 2007), human resource outcomes (Dryer and Reeves, 1995), and capital market outcomes (Richard et al., 2009) were used to evaluate organizational performance. All variables in the study were assessed using a five-point Likert scale, with one representing significant disagreement and five representing strong agreement. The alpha reliability for organizational performance was 0.877.

Table 1: Characteristics of Sample Distribution

Table 1: Distribution and Characteristics of Sample

Variable	Categories	No	(%)
Gender	Male	33	33
	Female	67	67
	Total	100	100
Marital Status	Signal	32	32
	Married	68	68
	Total	100	100
Age	18-25	30	30
	26-40	40	40
	41-60	30	30
	Over 60	0	0
	Total	100	100
Work status	Full time	90	90
	Part time	10	10
	Total	100	100
Position	Management	60	60
	Maintenance	10	10
	Technical Service	10	10
	Clerical	20	20
	Total	100	100
Experience	0-5	60	60
	6-10	8	8
	11-20	12	12
	21-30	20	20
	Over 30	0	0
	Total	**100**	**100**

Every item was scored using a Likert scale of 1 to 5, where 1 meant "Strongly Disagree" and 5 meant "Strongly Agree." Organizational Performance 's Cronbach alpha reliability was (0.899).

Controlling element / Controller Variable
According to a prior Khan research carried out in 2022, the study's control variables included age, education, and experience. The variables were coded as follows in the study: age (1 = under 25 years, 2 = 26–30 years, 3 = 31–40 years, 4 = 41–50 years, 5 = 51–60 years, and 6 = over 60), gender (1 = male, 2 = female), and section (1 = public, 2 = private).

A 5-point Likert scale was used to evaluate all study variables, with 1 indicating strong disagreement and 5 indicating strong agreement.

RESULTS
One-way ANOVA was used to investigate how the demographic variable examined in this research affected Organizational Performance. The mean Organizational Performance score did not differ significantly between different Education, Age, or Experience, according to the One-Way ANOVA findings (see table 2).

Table 2: One-way ANOVA

	OP	
Sources of variation	**F statistics**	**p-value**
Education	.411	.980
Age	1.773	.188
Experience	.899	.555

OP= Organizational Performance

Statistical Tools: Means, standard deviation, correlations, Reliabilities and multiple regression analysis also using SPSS 22 version.

Results
Table 3: Means, Standard deviation, correlation and Reliabilities

	Mean	SD	1	2	3
FMP	3.77	0.79	(0.782)		
FF	3.99	0.90	0.688**	(0.855)	
OP	3.66	0.99	0.888**	0.999**	(0.877)

FMP= Financial Management Practices, **FF**= Financial Flexibility, **OP**= Organizational Performance

As shown by the data in Table 3, Financial Management Practices have a strong positive correlation with Organizational Performance (0.888, p =.000), which provides total support for hypothesis 1. Furthermore, there is a positive relationship between Financial Management Practices and Financial Flexibility (0.688, p =.000), which supports hypothesis 2. Lastly, Financial Flexibility has a positive relationship with Organizational Performance (0.999 p =.000), which supports hypotheses 3 and 4, respectively.

Regression Analysis:
The current study made use of the Baron and Kenny (1986) mediation criteria. Regression analysis was used to determine the primary and mediating effects of the variable. Table 4 displays the regression analysis's findings. The results, which are in line with Hypothesis 1, indicate that Financial Management Practices have a highly beneficial and significant impact on Organizational Performance (β = 0.899, R2 = 0.299, p = .000). Given the obviously advantageous and significant impact of Financial Management Practices on Financial Flexibility (β = 0.888, R2 = 0.243, p = .000), Hypothesis 2 has been accepted. The findings also show that Financial Flexibility has a large and beneficial

impact on Organizational Performance (β = 0.988, R2 = 0.988, p =.000). As a result, we concur with hypothesis 3.

Table 4: Regression Analysis

	Financial Flexibility			Organizational Performance		
Predictor	B	R^2	▲R^2	B	R^2	▲R^2
Direct effect						
FMP	0.888***	0.243	0.244***	0.999***	0.299	0.299***
FF				0.988***	0.988	0.961***
Indirect effect						
FMP X FF				0.899***	0.888	0.788***

N = 100. FMP = Financial Management Practices, FF = Financial Flexibility
*=p < .05. **= p < .01. ***= p < .001. ns = not significant

Based on the results of the mediating regression analysis presented in Table 3, Financial Flexibility mediates the relationship between Financial Management Practices and Organizational Performance (β = 0.899, R2 = 0.888, ▲R2 = 0.788, p = .000). As a result, Hypothesis 4 is accepted.

Discussion and Managerial Implications:

Financial Management Practices have a beneficial and substantial impact on organizational performance in the Rawalpindi and Islamabad Region, which is mediated by Financial Flexibility. The present study demonstrates that Financial Management Practices are crucial for organizational performance, particularly in the service sector. Financial management should be prioritized by Management and Administration in order to enhance performance and gain a competitive edge in the industry.

Limitation and future research

Because it was carried out in Pakistan's Rawalpindi and Islamabad-based service sector, the findings of this study may not be generalizable to other situations. In order to produce and find reliable findings, future research might cover more industries from throughout the country. Future research may focus on other demographic factors because the current study accounted for employee characteristics like age, education, and experience.

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